

**Financial Sustainability Plan
For the City of Tucson
A Ten-Year Vision**

**Presented to the Mayor and Council
April 18, 2006**

Overview

Although the City of Tucson has a number of long-term plans on specific issues such as the capital improvement program, Transportation, and Parks and Recreation, there is not one process that consolidates the strategic priorities and long-term plans and financial projections into a single long-term service and financial plan. The financial sustainability process will fill that need by identifying future service levels consistent with the city's strategic priorities and the resources required to provide those services. The Financial Sustainability Plan will provide a basis for future biennial budgets and will guide workforce planning and other efforts to improve the effectiveness and efficiency of city services.

While the needs of the community appear daunting, a significant impact can be achieved through a managed effort that consistently grows the amount of funding allocated to priority services one year at a time.

The Financial Sustainability Plan is focused on the General Purpose Funds of the City.

Background. During December 2005 and January 2006, presentations were made to the Mayor and Council on three primary services that are the focus of the plan: road maintenance, public safety, and parks and recreational programs and services. The discussions also included such issues as crime prevention and youth funding. Since that time, staff has developed revenue projections and a plan that allocates revenue growth to the primary services presented to the Mayor and Council.

Use of Revenue Growth. One of the underlying premises of the Financial Sustainability Plan is that revenue growth should be applied to ensure continuous service improvements while still addressing human capital requirements of the city organization. Fiscal Year 2005, a year with positive economic conditions and a significant investment in services, provides a basis for determining future allocations to services. In that fiscal year, 58% of the year's revenue growth went to services and 42% was used for human capital.

Although it is recognized that future revenue growth will vary based on economic cycles, an average annual growth of \$24 million is anticipated over the next ten years. It is recommended that 60% or just over \$14 million of each year's revenue growth be allocated to services. Less than \$10 million would be used to support human capital costs, such as salary and benefit adjustments. Savings of \$2 to \$3 million annually are anticipated from efforts to improve the effectiveness and efficiency of city services that will offset inflationary costs. Revenue projections do not include any general tax increases or new revenue sources.

The total allocation for service improvements for the ten-year plan is over \$780 million beginning with \$16 million in the first year, Fiscal Year 2007, and growing to more than \$142 million in the tenth year. The recommended goals and allocations for the priority services are as follows:

Road Maintenance. Establish a sustainable road maintenance program to raise the condition of every roadway to "good" or better, with an emphasis on residential streets. The Financial

Sustainability Plan proposes that \$133 million from future General Fund revenues be allocated to this goal; an additional \$25 million is anticipated from Pima Association of Governments.

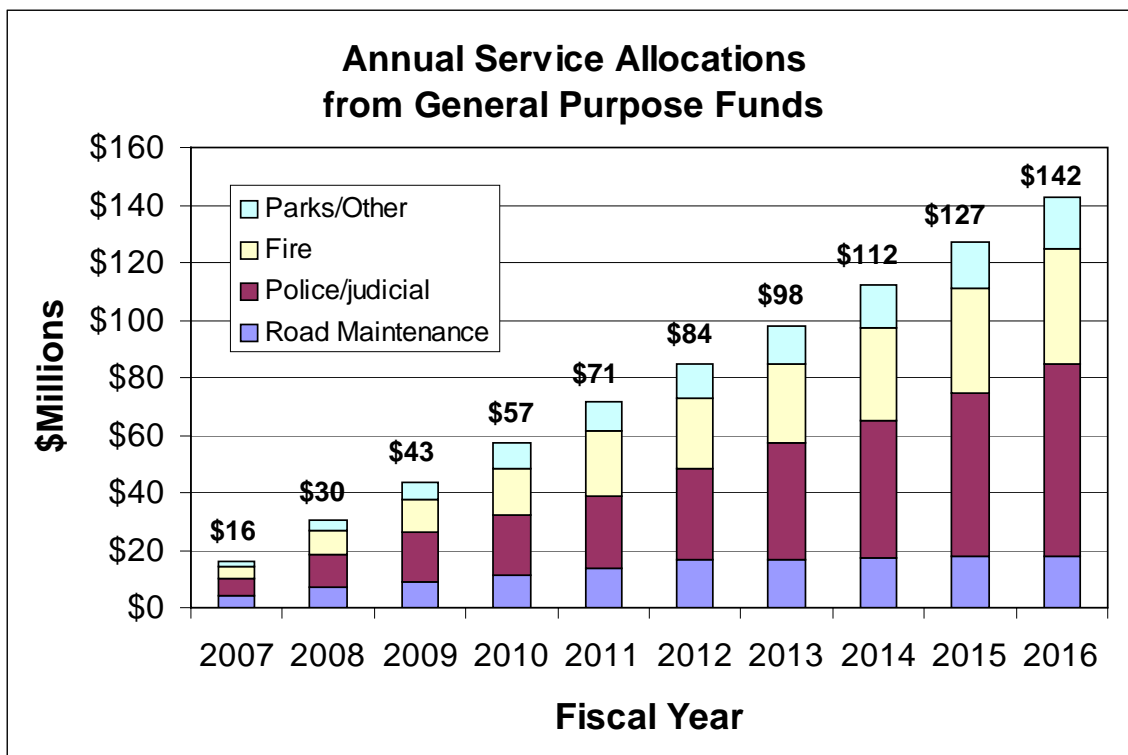
Public Safety – Police. Increase the number of Police officers to 2.4 per thousand residents to improve service and timely response, emphasizing crime prevention. A total of \$324 million is allocated to increase the Police force by 560 officers, including investments to improve effectiveness. This allocation includes \$38 million for the judicial support required because of the increase in enforcement.

Public Safety – Fire. Add new firefighters to ensure emergency call response within an average of 4 minutes and increase medical response capabilities, fire prevention efforts, and emergency and hazardous materials preparedness. The ten-year plan allocates \$223 million for this goal, including the addition of 354 firefighters and paramedics.

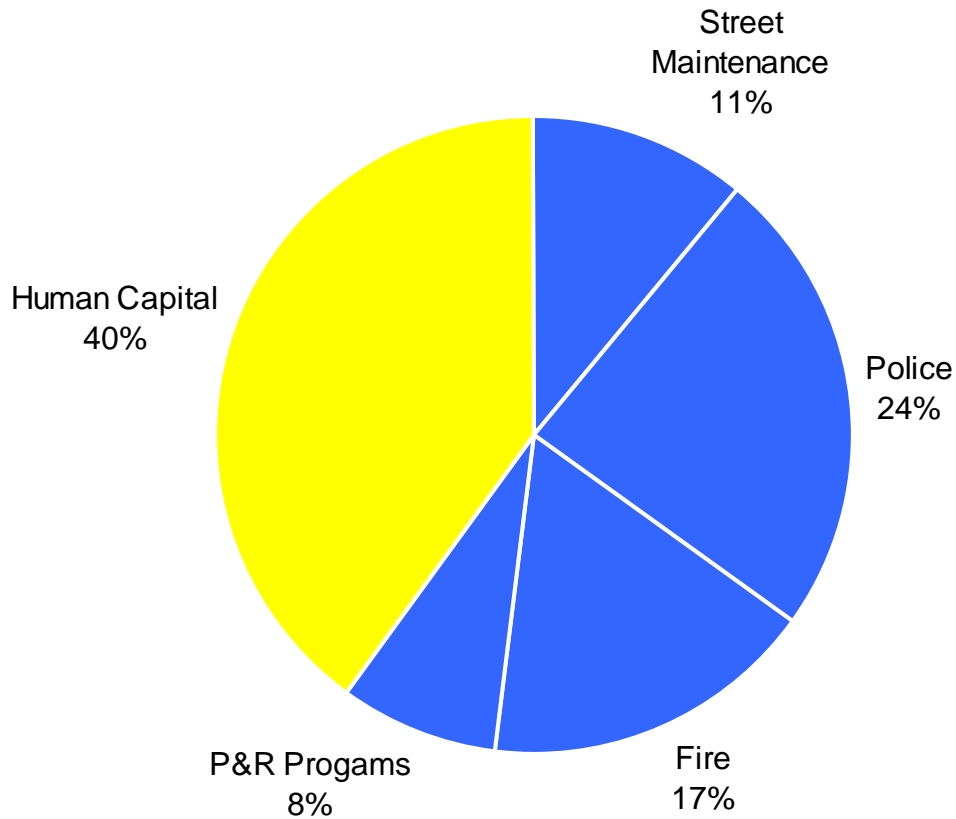
Parks and Recreation. Take care of our existing parks and centers and increase programs with an emphasis on youth, families, and seniors. Improvements in maintenance, programming, and other services, including those for social and educational issues, will be achieved with \$104 million in funding over ten years.

While many service needs are driven by a growing community, a significant portion is required to “catch up”. Impact fees will help offset some of the costs associated with growth. This plan assumes that capital improvements will be funded by future voter authorized bonds and other funding mechanisms.

The following graphs show the anticipated growth in annual funding for services over the next ten years and the distribution of total revenue growth.



Revenue Increase Allocation Concept Based on Ten-year Economic Growth

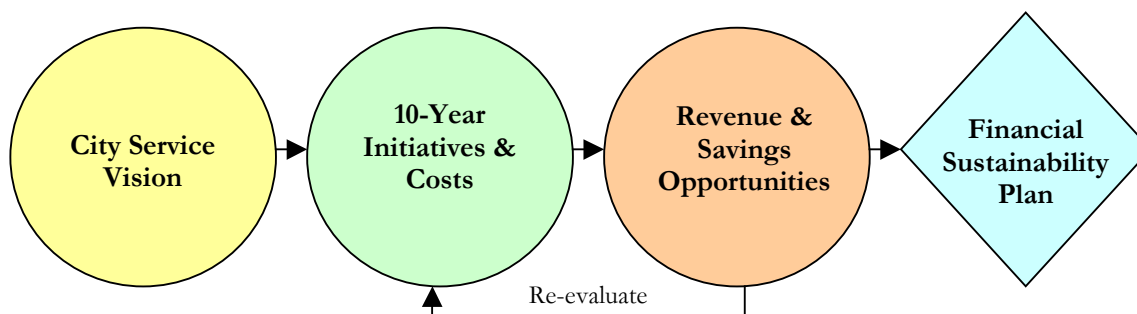


| | <u>\$ Millions</u> |
|--------------------------------|--------------------|
| Services | |
| Road Maintenance* | 132.8 |
| Police | 323.8 |
| Fire | 223.3 |
| Parks and Recreation and Other | <u>103.9</u> |
| Services Total | 783.8 |
| Human Capital | 521.8 |

* Additional \$24.7 million is anticipated from PAG.

Process and Assumptions

The Financial Sustainability process began in the summer of 2005 with the development of a model that would guide the preparation of the Financial Sustainability Plan. The overall process is generally based on the City's strategic priorities as well as citizen surveys, Mayor and Council Policy and existing plans such as the General Plan. The first step, City Service Vision, identifies specific services



that the City will focus on over the next ten years. Ten-Year Initiatives & Costs quantify future service demands and goals. In addition, the financial and organizational resources to reach those goals are identified in this step. Determining what we can afford as a community is the focus of the Revenue & Savings Opportunities step. Revenue growth is based on economic projections and historical trends, while savings are anticipated through focused and efficient service delivery. The ten-year costs are re-evaluated against the available financial resources to achieve a balanced ten-year plan. Ultimately, the plan will include measures of success. The first two years are incorporated in the biennial budget.

The major assumptions behind the ten-year revenue and cost projections are as follows:

Revenue Growth. While the economy and City revenues are anticipated to grow, the average rate of growth is anticipated to be lower in the second half of the ten-year plan. During the first two years revenue growth will exceed 5% and drop off to 4.5% in years three through five. The last five years are anticipated to grow 4%. Because a large part of City revenues are highly dependent on economic cycles, the City will likely see a significant decline in revenue growth at some point in the ten-year period, offset by higher than average growth in other years. It is difficult to pinpoint the exact timing of economic shifts; however, it is appropriate to assume a growth rate that averages out the peaks and valleys of the economic cycle over the ten years. The average revenue growth also takes into consideration reductions in the City's share of State sales and income taxes due to relative population growth rates.

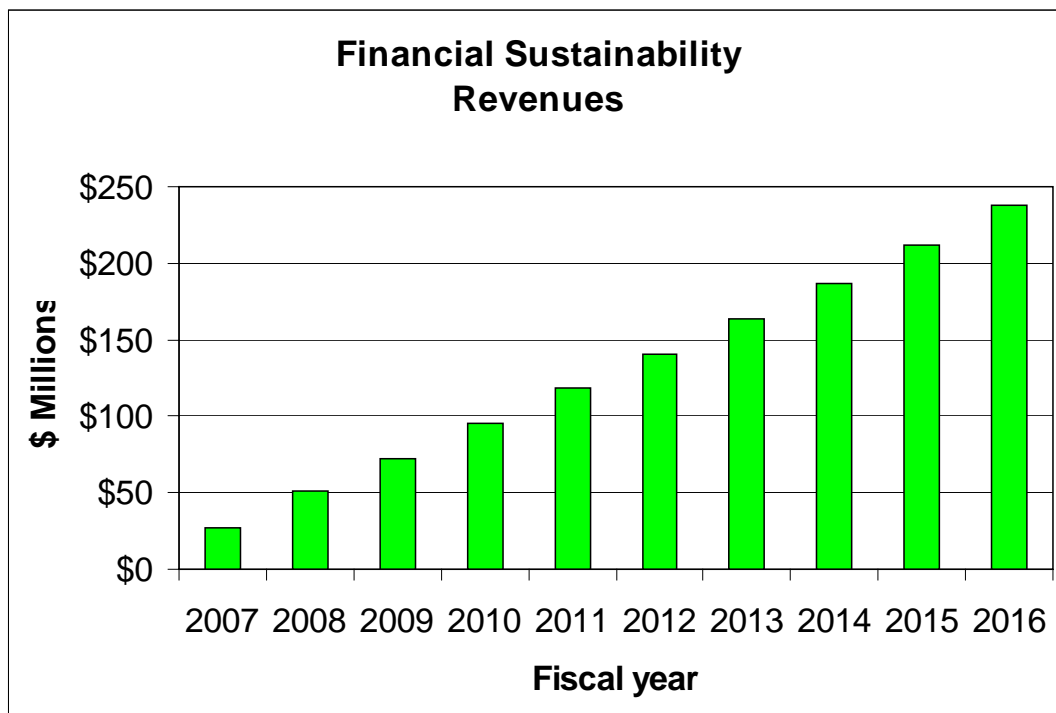
Inflation and Population. General inflation rates are assumed to be 2.5%. The costs of initiatives include this inflation factor in future years. Inflation in the base City budget is projected to be offset by cost savings throughout the City organization. Major efforts to evaluate services, costs, and City staffing requirements through workforce planning are programmed for the coming years. Required savings represent less than 1% of the General Purpose Funds budget. Population is anticipated to grow about 2% a year.

Capital Improvements. Providing the services outlined in the plan requires the construction of a number of Police, Fire, and Parks and Recreation facilities. Some of those are already funded

through the existing bond authorization. In addition, savings from the transfer of the library system to Pima County are targeted for reinvestment in critical facilities, and impact fees may fund Parks and Recreation facilities. While not currently adopted, impact fees for public safety may provide a future source. Finally, a new bond authorization will be required by 2010.

Revenues

Revenues are projected to grow an average of \$24 million a year over the ten-year planning period. Revenue growth will vary between \$21.5 million and \$27 million based on assumptions discussed in the prior section. The City's sales tax is projected to increase \$10.6 million a year on average, with State shared revenues increasing \$9.4 million. These two sources historically have grown at a faster rate than overall City general funds. All other funding sources are projected to grow about \$4 million. By 2016, revenues will be \$238 million higher than the current fiscal year, 2006. The cumulative revenue total is \$1.3 billion.



Road Maintenance

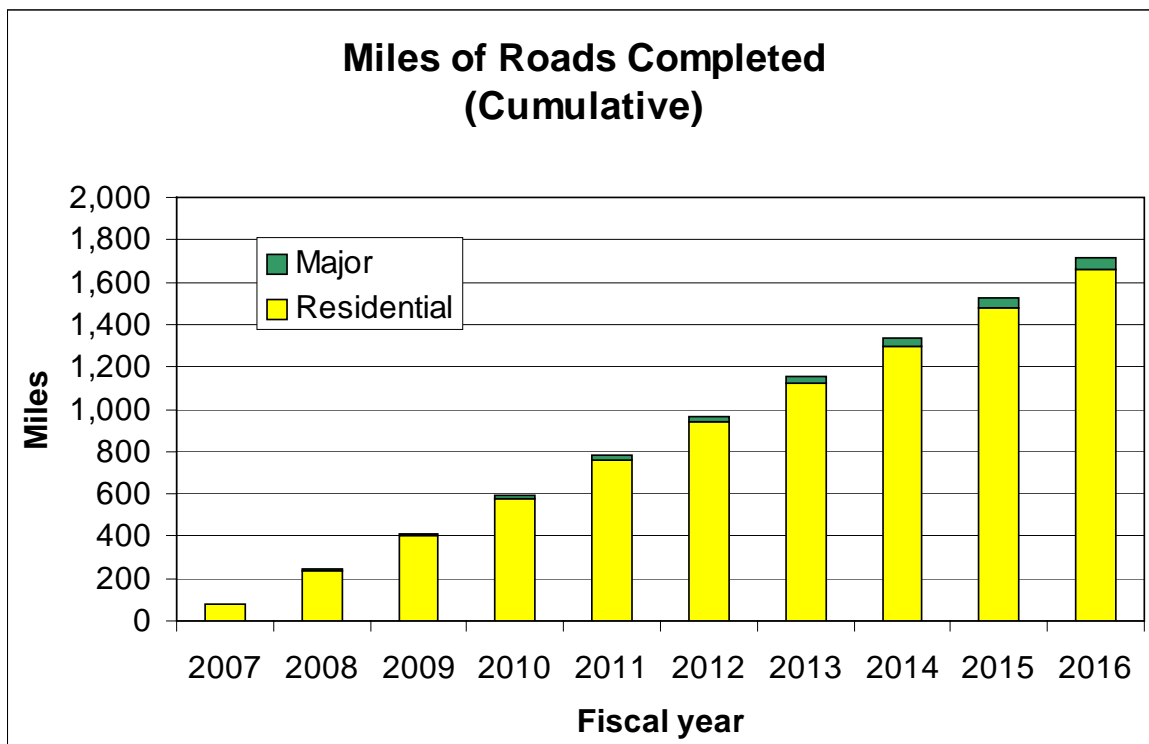
Goal

Establish a sustainable road maintenance program to bring both residential and major roadways to a good or better condition over the next ten years.

It is estimated that 37% of residential streets and 10% of major roadways do not meet the standard of “good” or better conditions. To achieve this goal, the Financial Sustainability Plan proposes \$133 million from future General Purpose Fund revenues be allocated to this goal; an additional \$25 million is anticipated from Pima Association of Governments (PAG).

Major Streets and Routes. The approximately 20 miles of major roads in “poor” or “very poor” condition would be reconstructed or treated with mill and overlay, with an additional 35 miles currently in “fair” or “good” condition treated with mill and overlay or rehabilitated for an investment of \$50 million over ten years. This includes the \$25 million funded through PAG grants. As a result of these efforts, all major roadways will be in “good” or better condition. The first two years have been funded through PAG with specific locations identified as part of the current grant. By 2012, annual investments of \$5 million are anticipated, including \$2 million from PAG.

Residential and Local Streets. A total of \$108 million is proposed over ten years for local and residential streets. All of the 135 square miles of residential areas in the City would be brought up to “good” condition or better. Where required, more extensive rehabilitation will be used. Near the end of the ten-year period, the City would begin a new cycle of residential street maintenance on an additional 31 square miles. This would result in approximately 1,600 miles receiving an appropriate level of maintenance over ten years. The first two years would include 24 square miles throughout the City. By the 2012, annual investments of \$12 million are anticipated.



Public Safety Police

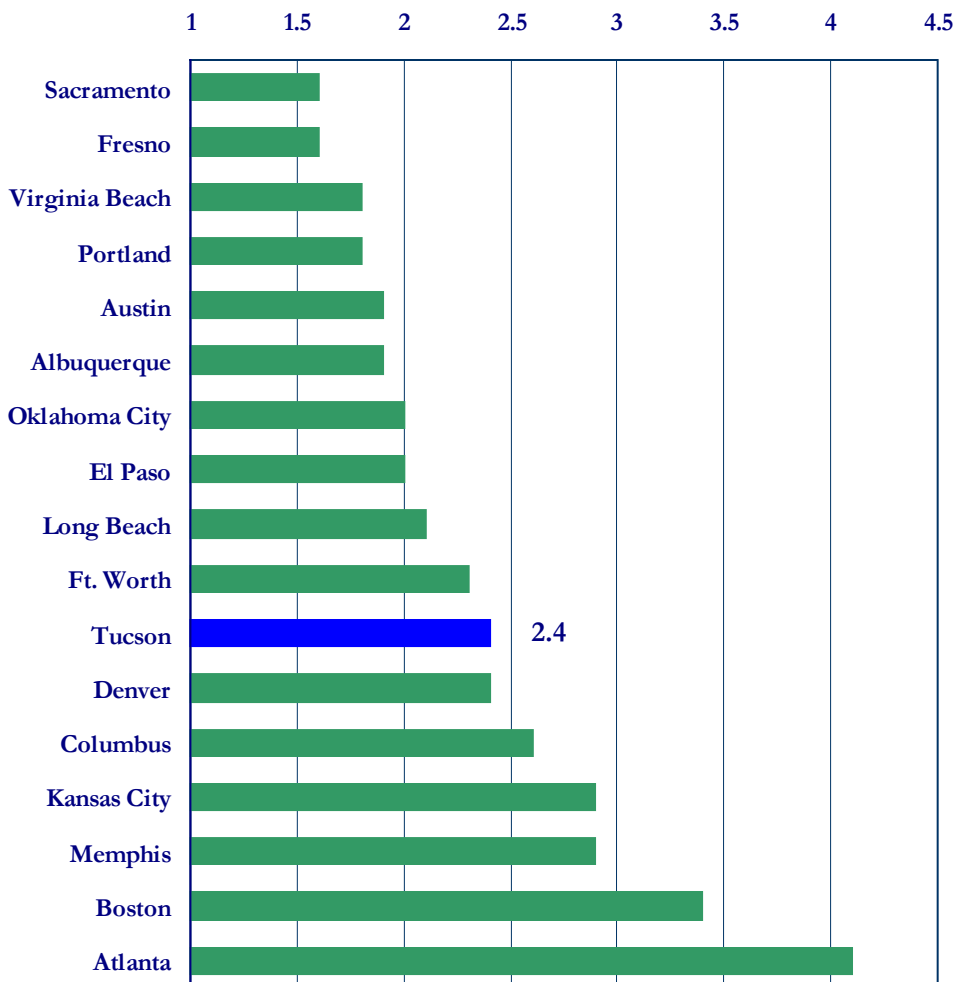
Goal

2.4 Police Officers per thousand residents to improve service and timely response with a growing prevention role.

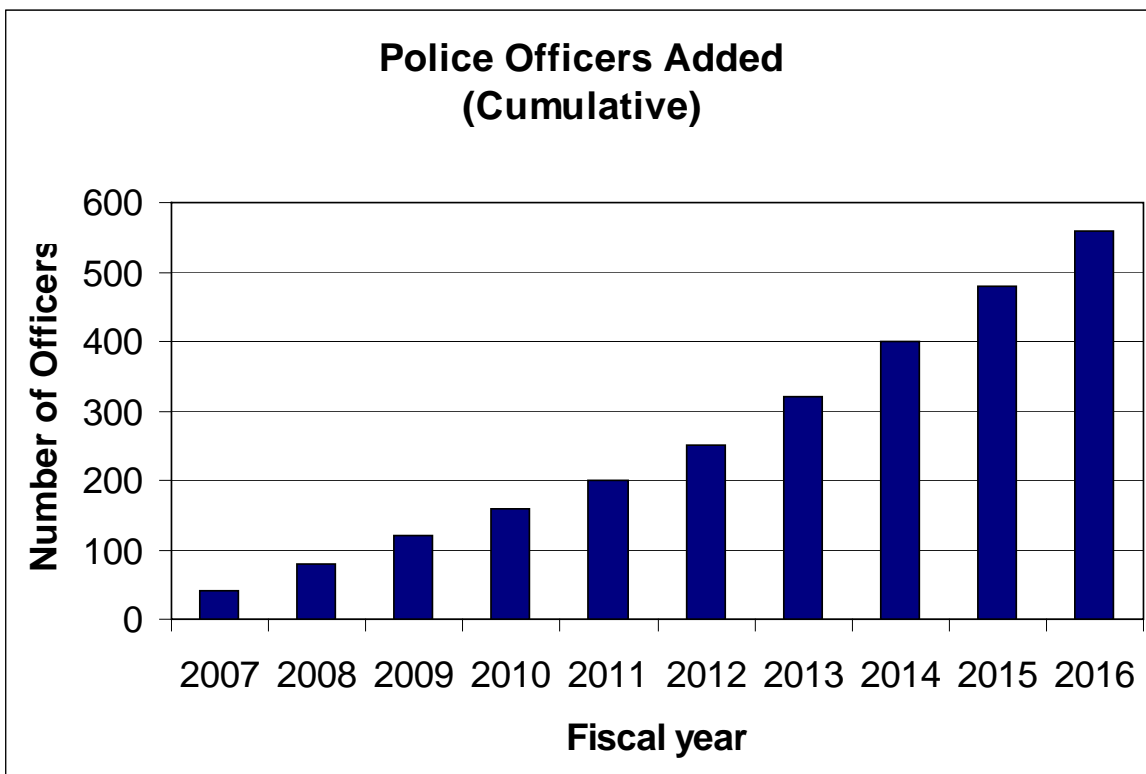
The Tucson Police Department is currently staffed at 1.9 officers per thousand residents. In addition, the department has significant needs to upgrade equipment and technology.

Growing the Force. The Financial Sustainability Plan proposes adding 560 officers at a cost of \$199 million over the ten-year period. An additional \$79 million for support staff and costs such as maintenance and replacement of vehicles, equipment, and facilities will be required. This will meet the goal of 2.4 officers per thousand residents. As shown below, this will put the City in the middle of benchmark cities.

Police Officers per 1,000 Population



Because funding is limited in the early years, only 40 officers a year would be added in the first five years for a total of 200 officers. By the eighth year, 400 officers will be funded. The recommended biennial budget includes close to \$13 million for 80 officers and support.



Police Effectiveness. To meet the demands for crime lab equipment, technology, and other crime prevention tools, an investment of \$8 million is proposed over the ten-year period. These funds are required to improve the ability of officers to respond to and investigate criminal activity. The first two years would include \$3 million to purchase much needed crime lab equipment and improve communication and dispatch technology.

Judicial Support. A growing police force will require an expanded capability to adjudicate cases in City Court. A review of other jurisdictions provided a basis for determining the number of Court, Prosecutor, and Public Defender resources required for every 100 officers added to the Police Department. The addition of 560 police officers will require \$38 million over the next ten years for 8 magistrates, 20 prosecutors, and 10 public defenders, with appropriate support staff.

Public Safety Fire

Goal

4 minute response time with increased medical response capabilities, prevention, and emergency and hazardous materials preparedness.

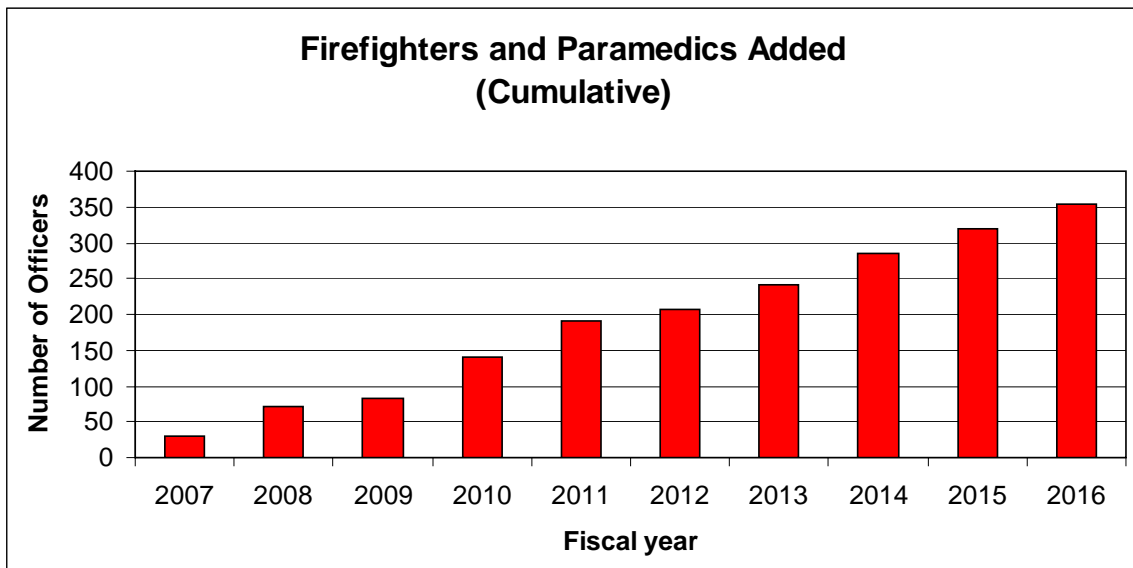
Current average response times for the Fire Department exceed 5 minutes for all categories of emergency calls and in some cases are as high as 6 minutes.

Response Time. To make a significant impact on response times, the Financial Sustainability Plan calls for seven new fire stations with 326 fire fighters, paramedics and support (including technology) at a cost of \$189 million over the ten-year period. In addition, 2 stations, including Fire Central, will be relocated to improve service, and existing stations will be upgraded. This plan funds the alternative service delivery model that frees up paramedics and engine companies to respond to high priority calls. In support of this effort, 14 firefighters will be added in 2007 to provide a swing shift that will assist in meeting constant staffing requirements at Fire Stations and avoid overtime costs that result when a stations is short of staff.

Fire Prevention. Residential and commercial building inspections will be increased at a cost of \$12 million over ten years with 16 additional staff. This plan will increase the frequency of inspections.

Emergency and Hazardous Materials Preparedness. Emergency management and hazardous materials capabilities are proposed with funding of \$9 million and 12 staff added over ten years.

A total of 354 firefighters and paramedics are proposed in the Financial Sustainability Plan, including 70 in the first two years.



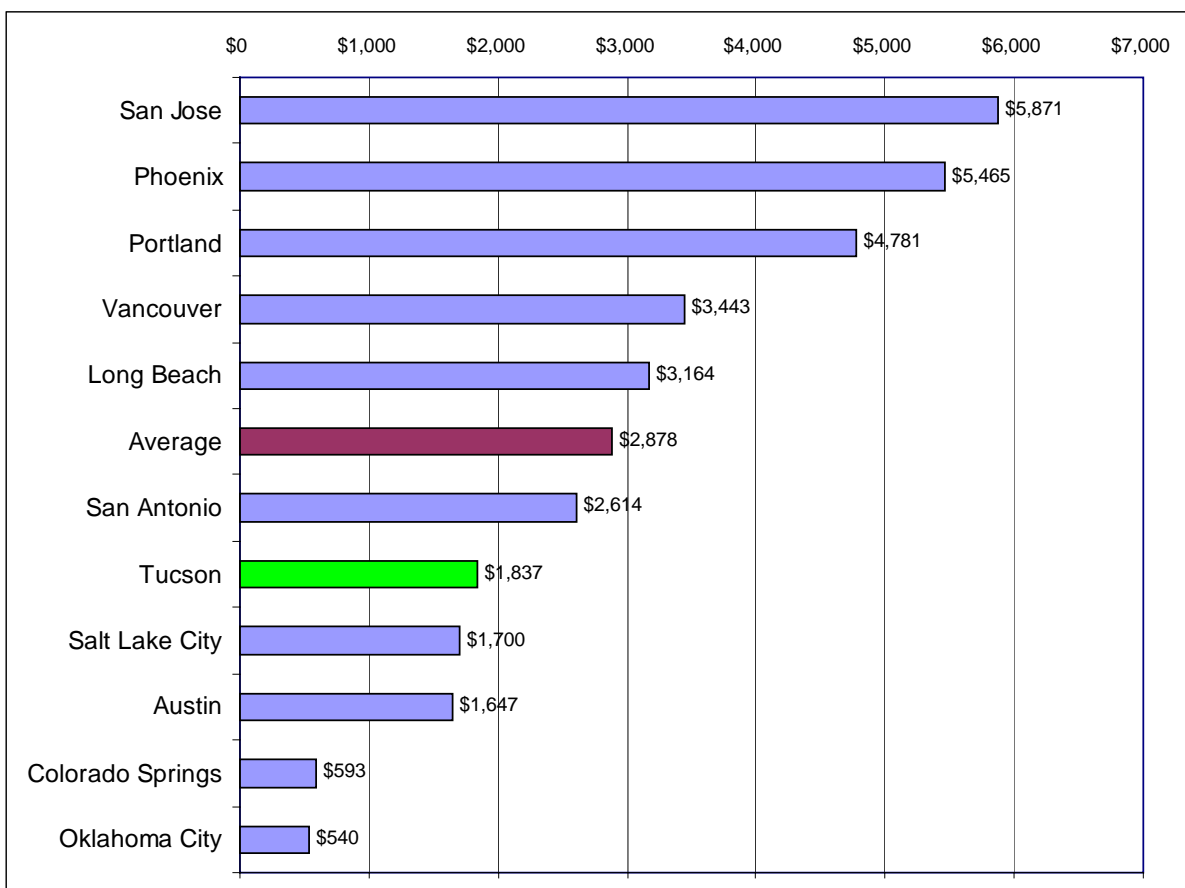
Parks and Recreation Maintenance and Programs

Goal

Maintain clean, safe, and accessible parks and facilities and improve the quality and accessibility of programs with an emphasis on youth, families, and seniors.

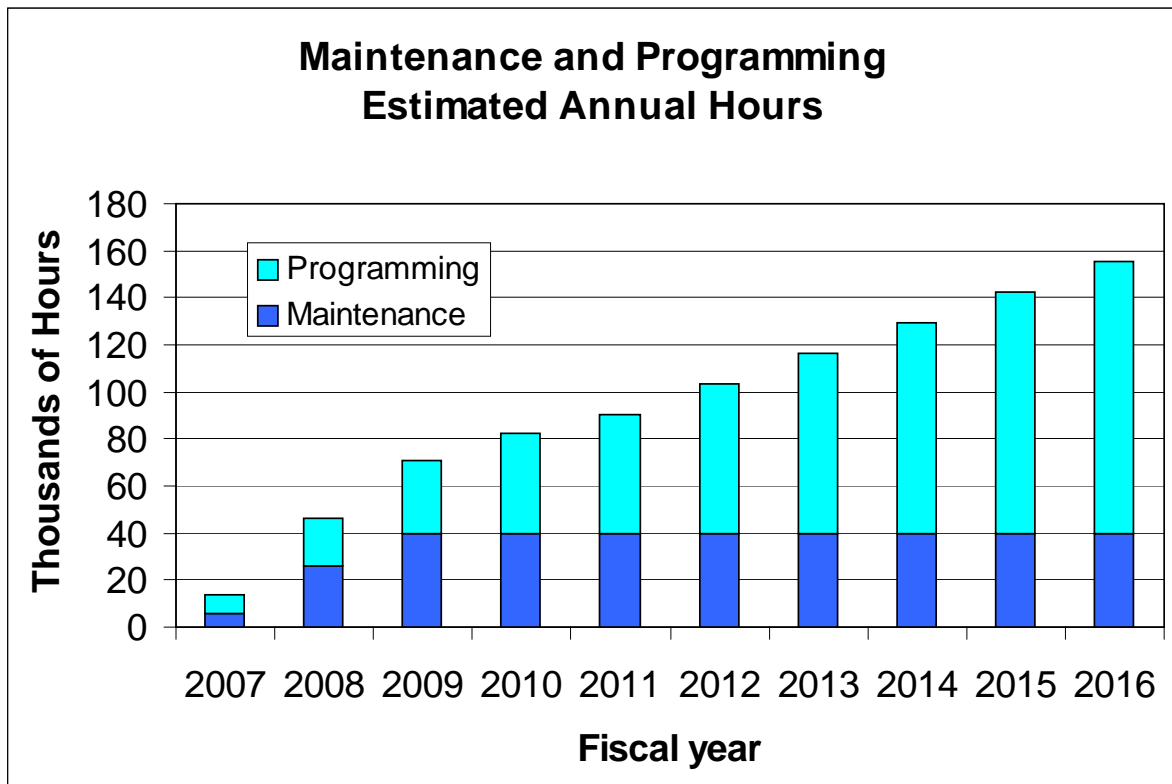
While the Parks and Recreation Department receives good ratings for services provided to City residents, there are clear deficiencies in maintenance and programming for children, families, and seniors. The concept of accessible parks and facilities, includes the need for new parks. As an example, the following graphic shows how Tucson compares to other cities in maintenance per acre.

Maintenance Dollars Expended per Acre



Maintenance. To increase maintenance of parks and centers, and replace equipment as it wears out, an investment of \$34 million over the next ten years is proposed. It is estimated that this will provide approximately 350,000 hours of maintenance over the ten-year period and upgrades to 168 irrigation systems, fields, ramadas, and comfort stations. The annual budget would reach \$4 million by the sixth year over the current budget, representing 40,000 hours. This investment will provide daily care at City parks and improve safety and the overall quality of City facilities.

Programs and Services. Programming and services for youth, family and seniors will be increased with the addition of \$18 million over the next ten years. By 2016, it is anticipated that more than 58,000 hours of annual youth and family programs and services will have been added with an additional 16,000 hours for seniors. New parks and facilities will provide an additional 41,000 hours of programming and recreational opportunities as part of \$43 million in funding for staffing and maintenance. It is anticipated that 40 facilities will opened or renovated over the next ten years, if adequate bonds are authorized by the voters (20 parks and recreation centers are funded with existing City and County bonds).



Workforce development and related educational opportunities are also funded at \$8 million over the ten-year period through this goal (based on Mayor and Council direction).

Principles and Concepts

The following Financial Sustainability Plan principles and concepts are recommended for approval by the Mayor and Council.

The Financial Sustainability Plan quantifies the resources required to reach a set of goals for improving services to the community.

The Financial Sustainability Plan is not static. The plan will be reviewed, discussed, and updated by the Mayor and Council annually to reflect changing conditions and priorities.

The Financial Sustainability Plan focuses on priorities consistently identified in the approved Mayor and Council Strategic Priorities.

The Financial Sustainability Plan is an allocation of future General Purpose Fund revenues to the primary community concerns and priorities.

The Financial Sustainability Plan is based on an allocation of 60% of future revenue growth to improving services and 40% to address human capital requirements of the City organization.

The first two years of the Financial Sustainability Plan are incorporated in the biennial budget for adoption by the Mayor and Council.